



As reprinted from 10/07/2008

Housing collapses

Treasurer: Record backlog, deficit offset by other gains

Arizona Treasurer Dean Martin detailed the worst financial crisis since the Great Depression, but still offered grounds for hope, talking to about 30 people at Payson Town Hall on Monday.

Job growth has stagnated and the housing market has all but collapsed, but the state's unemployment levels come nowhere near historic highs, and gains in other areas have helped offset the biggest glut of unsold houses in state history. August's unemployment rate in Arizona was 5.6 percent, which is lower than August 2003 levels of 5.8 percent.

Per-capita, new-home construction levels have sunk to the lowest ever, Martin said.

The slump has contributed to a projected \$1.5 billion state budget shortfall in fiscal year 2008, which could grow to \$2.5 billion by 2010, predicted Martin. The state can choose between massive spending cuts or tax increases, Martin said.

"Other folks called me Chicken Little a year-and-a-half ago," he said, adding that he's urging an immediate special session to revamp the budget.

Martin forecasts \$9 billion in revenue for 2009, compared to the governor's prediction of nearly \$10 billion. The legislature approved \$11.65 billion in spending, according to Martin's calculations, which include debt and "accounting gimmicks" like delaying payments to schools. The adopted state budget calls for \$9.9 billion in new spending, which did not include its carryover of past debt.

"Apparently we're supposed to drive really fast while going to buy a lottery ticket."

Still, despite a national climate of fear that has frozen credit markets, Martin says brisk exports will help foster a complete recovery by 2012 — once the economy bottoms out in 2009.

Historically, Arizona's 5 percent unemployment rate is actually relatively low, he said. In the early '80s, the unemployment rate topped 11.5 percent, and it reached 6 percent in 2003.

Domestic manufacturing is still robust, and burgeoning countries like China and India are eagerly grabbing America's goods.

One of the differences between the Depression and the credit crisis of 2008 is that domestic trade policies during the Depression decreased exports, Martin said. Exports today are still strong and unemployment is at historic lows.

The housing bubble's frenzy was "insane," Martin said. "It was going to burst."

Arizona, along with Nevada, Florida and California, were considered undervalued and prime for what would become the sub-prime mess.

In 2002, the stock market bubble had popped, and investors looked for options other than Wall Street. Arizona's average home that year was valued at \$165,000, which was \$30,000 under a trend line developed by economists.

"All of a sudden, we're off to the races," Martin said. In 2005, average home values topped \$210,000. Prices continued rising until 2007, when average home prices peaked at \$325,000, a full \$100,000 over what economists projected.

As of January 2008, prices remained at \$305,000 — \$70,000 above expectations.

"We had a lot of builders building as fast as they possibly could."

Raw material bidding wars erupted, which resulted in builders entering contracts for guaranteed delivery, which were still guaranteed when the frenzy abruptly halted.

Builders carried on, often constructing spec houses. Now, Arizona has 67,000 excess homes.

As a result of the housing and credit crises, America's consumer confidence is the lowest it has been since the 1970s oil embargo and Iranian hostage crises.

More than half of the U.S. gross domestic product relies on consumer spending. Nine percent of homeowners nationally are either in foreclosure or behind on their mortgages.

In 2006, Phoenix ranked fourth nationwide for the number of sub-prime loans written, with a third of Phoenix's mortgages ranked sub-prime.

However, Starbucks economics offers a more encouraging sign. Of 600 stores Starbucks will close nationwide, only one will leave Arizona — in Eloy.

"As long as people have \$4 for a cup of coffee, it's not that bad," Martin said.

"The reason people move to Arizona hasn't changed," Martin said, it's "so they don't have to scrape the sunshine off their windshields in January."

By Suzanne Jacobson